The Economy in 2008

NOTE: This document was originally produced on June 1, 2008 and contains information updated as of August 11, 2008. These updates are highlighted in the text areas below.

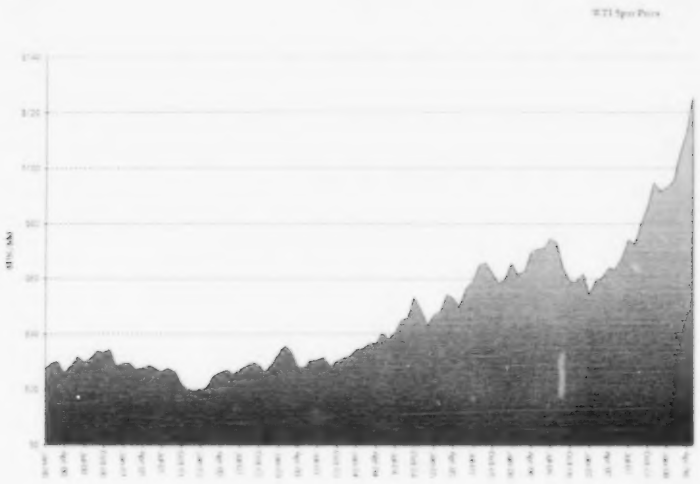
The Yukon economy has performed well in the last few years. In 2008, there are many indications that the economy will once again register economic growth at a pace that will approach or equal the estimated 3.8% real growth in gross domestic product (GDP) in 2007, which was the fourth highest rate in Canada. The outlook for the Yukon economy considers that a full year of production from the Minto mine, strong mineral exploration and mine development spending, utility construction and continued strong consumer expenditures should be the main drivers of real economic growth in 2008.

However, there are two global factors present that create some risks for economic growth in Yukon, in a similar way that they present risks to most economies in the world.

These include:

High and rising world oil prices:

- Crude oil prices have roughly doubled from April 2007 to April 2008. In Yukon, this has so far translated into a 12.1% increase in gasoline prices (April 2008/April 2007 - Whitehorse self serve prices) and a 23.9% increase (April 2008/April 2007 - Whitehorse prices) in the prices of home heating fuels. Yukon, like other northern jurisdictions, has a greater dependence on energy for heating and for transportation. Many of our goods travel distances of 2,000 kilometres or more from southern markets and higher transportation costs are impacting the prices of a variety of goods and services in Yukon.
- Yukon consumers and businesses are feeling the impacts of rising fuel costs. Energy is mostly a non-discretionary item and, in the short term, higher energy costs will translate into less discretionary income for Yukon consumers. However, Yukon has a growing economy and Yukoners enjoy wages and salaries that are 14.1% higher than the national average. Those who live in smaller communities and those who earn lower wages are likely feeling these impacts to a greater extent.



August Update: Crude oil prices have decreased by over $25U.S./bbl through July. TD Economics is currently forecasting crude prices to decrease further, to around $105U.S./bbl, by the end of 2008.

The United States Economy:

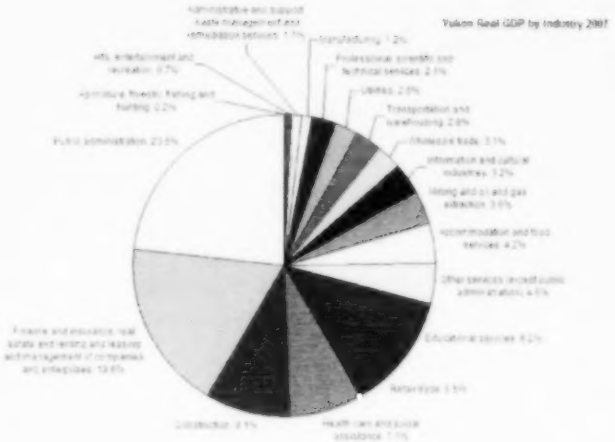
- The U.S. economy was generally viewed to be very near a recession in early 2008. There is further concern expressed by some economists that the American economy could be on the verge of a period of stagflation, whereby the economy enters a recession (negative GDP growth) and concurrently experiences high inflation, due largely to rising energy prices. This situation would limit the ability of the U.S. Federal Reserve to boost the economy with interest rate decreases and may serve to deepen the severity and duration of a U.S. recession.
- The U.S remains both Yukon's largest tourism market and the largest industrial economy in the world. Should the U.S. enter a prolonged recession, it may serve to reduce visitation to Yukon and dampen demand (and hence prices) for commodities, both of which have been a significant factors in the recent economic growth in the territory.

Offsetting these factors is continued strong economic growth in Asia, which has resulted in direct foreign investment in Yukon and continues to underpin the prices for a number of

commodities. The economic growth in Asia however, is also at risk of being impacted by a U.S. recession, or by strong continued high energy costs.

Economic Growth (Gross Domestic Product)

Economic growth in Yukon outpaced the national average of 2.7% last year. The Yukon economy grew by 3.8% in 2007, following growth of 2.9% in 2006 and 3.9% in 2005. Yukon's real GDP growth in 2007 was fourth highest in Canada, behind the Northwest Territories (13.1%), Nunuvut (13.0%) and Newfoundland (9.1%).



Construction, including residential, non-residential and transportation engineering construction, and the opening of the Sherwood Copper Minto Mine, were key drivers of growth in 2007. Although growth in net government current expenditures on goods and services decelerated, personal expenditures on goods and services increased strongly last year (5.4%), which was aided by visitor spending during the hosting of the 2007 Canada Winter Games in Whitehorse.

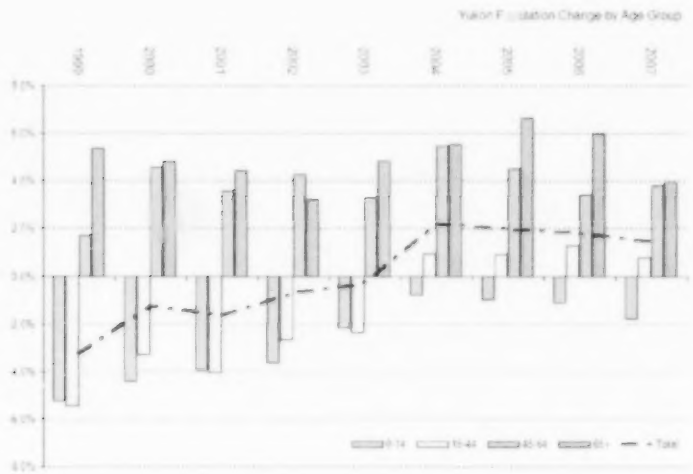
Corporation profits were up strongly, reflecting the new mining activity. Support activities for mining, including exploration, continued to increase.

Economic growth in Yukon is projected to surpass the national average and continue at a 3.0 to 4.0% pace. This level of growth would place Yukon amongst the projected top-growing economies in Canada once again in 2008. Spurring this growth will be a full year of

production from the Minto mine, mineral exploration and mine development, utility construction and continued strong consumer expenditures.

Population

Yukon's annual average population grew by 473 in 2007, representing a 1.5% increase over the previous year. This is the fourth straight year of population growth recorded in Yukon following six years of decline.



Population growth was focused in Whitehorse where the population increased by 322 (1.3%) between December 2006 and December 2007. Yukon's other two largest communities, Dawson City and Watson Lake, also recorded above-average growth.

Yukon's population demographic appears to be aging. Between December 2006 and December 2007, the number of children (14 and younger) decreased by 1.7% while the number of mid-to-retirement aged Yukoners (45-64) grew by 4.0%, or by about 400 to 10,389. The number of post-retirement age Yukon residents (65 and older) also increased by 4.9%, to 2,513 in 2007.

The number of Yukoners in the 15-44 age group decreased in 2007 by a small 0.3% overall, with growth in the under 30 range (0.9%) and a decrease in the 30-44 age range (1.4%).

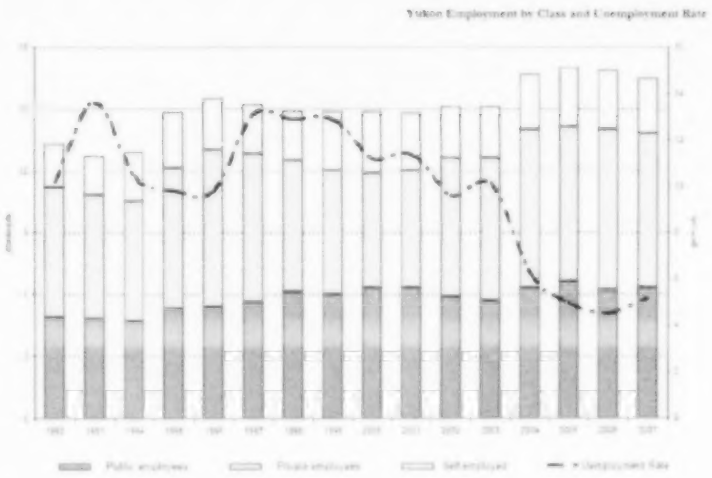
The population of Yukon is expected to increase again in 2008. The population is forecast to average 32,500 over the year and approach 33,000 by this December.

August Update: Yukon population growth in the first half of 2008 has been stronger than expected. According the Yukon Bureau of Statistics June 2008 Population Report, Yukon's population reached 33,294 in June, which is 3.4% higher than in June 2007, and roughly triple the growth rate initially expected.

The largest population increase was in Whitehorse, which grew by 849 persons, but most other communities also showed an increase. The only notable decrease was seen in the village of Old Crow, which recorded a 23 person decrease.

This data results in a revision of our initial forecast, which projected an average population in the territory of 32,500 in 2008. Population is now projected to average 33,300 in 2008, with the year-end population projected to surpass 33,500.

Labour Force



The Yukon Labour Force Survey reports that the Yukon labour force declined by 400 from 2006 average levels, to 17,300 in 2007. In addition, the number of employed decreased by 500, to 16,400 employed and the number of unemployed increased by 100, to 900 unemployed in 2007.

Overall, the average unemployment rate in the territory was reported as 5.2% in 2007, up from 4.5% in 2006. Although the unemployment rate increased last year, it is still substantially lower than the 10.0% average observed over the previous 15 years.

The labour force participation rate, which is the labour force as a percentage of population, dropped to historic low in 2007, averaging 73.9%. An aging population is probably a factor

in a higher percentage of Yukoners choosing not to participate in the labour force. While over 86.8% of the population between the ages of 25-54 participated in the labour force in 2007, the percentage drops substantially to 50.0% for those 55 and over. Nineteen percent of retirement-age individuals (65 and older) chose to participate in the labour force in 2007.

While the total labour force declined in 2007, the Aboriginal labour force increased for a second year in a row. Aboriginal employment has increased each year for the last three years but the average unemployment rate for Aboriginals was reported as 9.7% in 2007, almost three times the rate for non-Aboriginals (3.5%).

Labour force data for early 2008 has shown growth over last year. The unemployment rate in the first five months of this year has averaged 4.9% and this trend is expected to continue over the rest of the year. Overall, the labour force should average 17,600 in 2008 with 16,700 employed, leaving 900 unemployed resulting in an average unemployment rate of 5.0%.

August Update: Employment has been strong in the first seven months of 2008, with the number employed growing by 900 since July 2007. Unemployment in July increased by 100 persons over July 2007 and the unemployment rate increased slightly to 5.0%.

Employment is expected to remain strong for the remainder of the year with unemployment continuing to float around 5.0%.

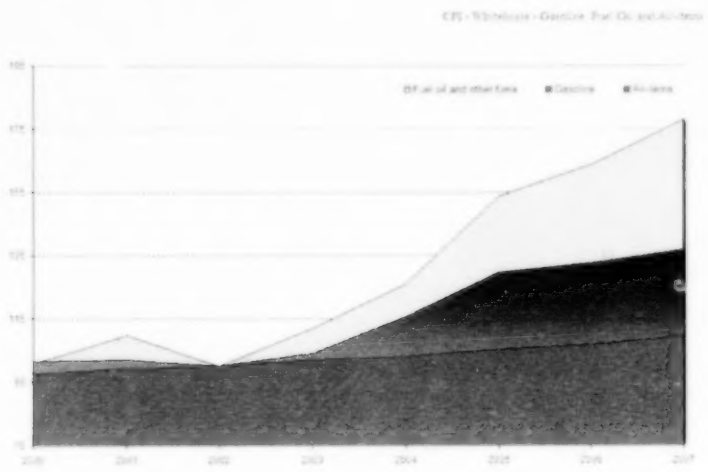
Consumer Prices

The Consumer Price Index (CPI) for Whitehorse increased by 2.5% in 2007 compared to a national average of 2.1%. If direct energy costs are excluded, the Whitehorse CPI increased by 2.1%, although higher energy costs do factor indirectly into the costs of other items in the CPI.

Water, fuel and electricity costs increased by 8.5% last year, contributing to a 5.8% increase in shelter costs. Both the increase in home heating fuel prices and the reduction in the Rate Stabilization Fund were contributing factors. The Yukon Utilities Board will be considering an electrical rate application by the Yukon Electrical Company Limited in the fall of 2008.

Higher gasoline prices (4.6%) and automobile insurance premiums (6.6%) led to costs for operating private vehicles increasing by 4.6% in 2007. Public transportation costs, on the other hand, remained unchanged from 2006.

Inflation for food items purchased from stores remained somewhat sheltered from increasing energy costs in 2007, and increased at a rate of 1.9%. Food purchased from restaurants, however, was influenced not only by increased energy costs, but also from higher labour costs, showing a 3.6% increase in 2007.



Higher energy costs are expected to put additional pressure on inflation in 2008. The influence will not only be direct but will also continue to trickle through the economy, affecting the final sale prices of many goods as retailers pass on increased costs to consumers. It is expected that inflation in Whitehorse should average approximately 3.0% over 2008.

August Update: Consumer price inflation in Whitehorse has averaged 3.3% over the first half of 2008. A key driver of inflation has been increased energy costs (including electricity, gasoline and fuel oils).

Later in 2008, inflation should decrease somewhat as crude prices are expected to decrease and the housing market is expected to stabilize.

Mining

Mineral exploration spending in 2007 increased to $140 million, from $83 million in 2006. An additional $75 million was spent by mining companies on mine development last year. Mineral production in the territory benefited from the start of production at the Minto Mine. Placer gold production also increased by 9.7% to 63,929 crude ounces and the value of that production jumped by 19.2% to $38.1 million due to the strength in gold prices.

Exploration spending in the territory in 2008 is expected to continue at a similar pace to 2007. However, as projects advance into the pre-production phase, development expenditures may top $90 million, with investment primarily at Carmacks Copper and at Wolverine (dependant on successful financing).

The Minto mine is expecting to produce 59 million lbs of copper in 2008, as well as 26,000 oz of gold and 337,000 oz of silver.

Risks to the industry in 2008 are the impacts of higher energy and transportation prices as a result of increasing fuel (particularly diesel) prices. A weaker U.S. dollar (and the corresponding increase in the Canadian dollar) should continue to temper revenue growth. Strong commodity demand from Asia, however, is expected to continue to support prices.

August Update: Exploration expenditures appear to be on pace in 2008 to approach levels seen in 2007. Capital expenditures for the Minto mine expansion should support development expenditures.

Development expenditures at Wolverine and Carmacks Copper in 2008 are still dependent on financing and permitting, respectively.

Tourism

A primary indicator of Yukon tourism, International Border Crossings increased strongly in 2007. The Department of Tourism and Culture estimates that the total number of travelers crossing into Yukon reached 329,203 in 2007. This is 13,699 (4.0%) higher than observed in the previous year.

Even with the increase in the value of the Canadian dollar and rising fuel costs, the number of U.S. visitors increased by 5.0% or 10,667 visitors, in 2007. As well, the number of Canadians visiting Yukon was up 13.0% (3,395 visitors) and the number of international visitors increased 10.0% (2,574 visitors).

The growth in travel to Yukon in 2007 was due primarily to an increase of cruise ship day tour activity out of Skagway, Alaska. Motorcoach traffic to Yukon increased 15.0%, or 16,143 visitors, compared to 2006. Conversely, private vehicle traffic was down 1.0%, or about 2,702 visitors. The tourism industry also received a winter boost in 2007 with the hosting of the Canada Winter Games in Whitehorse.

Tourism in 2008 will face some downward pressure from the continued strength of the Canadian dollar combined with increasing fuel prices, especially for the rubber-tire tourist portion. European visitation to Yukon via Condor Air will continue over the summer months, providing support for businesses catering to the fly/drive component of Yukon tourism.

August Update: According the Department of Tourism and Culture, visitation to Yukon is down 2.0% through June 2008 compared to the same period in 2007. American private vehicle traffic and cruise-tour motorcoach traffic have been negatively affected by the high price of fuel, the lower value of the U.S. dollar and the economic slowdown in the United States. This downturn is part of a Canada-wide trend affecting most other jurisdictions. However, the decrease in American traffic has largely been off-set by increased visitation by overseas visitors.

Oil and Gas

Production at Kotaneelee, Yukon's only producing gas field, continued to decline in 2007, dropping to 102.6 million cubic metres from 152.7 million cubic metres the previous year.

Government of Yukon is currently offering a call for work bid on two locations in northern Yukon.

Recent exploration in Liard Plateau and Eagle Plain has taken the form of seismic, aeromagnetic, geologic and geochemical surveys. There is renewed interest in Peel Plateau,

where exploration programs are planned. A permit has recently been issued to Hunt Oil Company of Canada based upon work commitments in the region.

The best prospects within these basins are expected to be large, deep gas pools similar to the producing field at Kotaneelee.

August Update: On August 1, 2008 Calgary-based TransCanada Pipelines Ltd. was awarded a license for the Alaska Pipeline Project under the *Alaska Gasline Inducement Act.* TransCanada will now conduct further engineering and field work to fine-tune the costs of the pipeline and proceed with securing gas supply commitments from North Slope producers. It is estimated that this process will take between 18 and 20 months.

In late 2007, the Joint Review Panel (JRP) concluded public hearings on the Mackenzie Gas Project (MGP). A final report has been delayed and is expected to be released in 2009. The $16-$20 million MGP could have a startup date of 2014.

Construction of either of these projects would be beneficial to Yukon's oil and gas industry by providing potential access to infrastructure to get Yukon natural gas to markets in the south.

The Yukon government's recent call for bids for the issuance of oil and gas rights yielded no bids. This result is likely due, in part, to the uncertainties related to the delay in the release of the JRP's findings for the MGP, along with a tightening of financial markets, which affects the junior oil and gas companies currently interested in working in Yukon's frontier regions. The Yukon government undertakes rights dispositions twice a year and the Spring 2009 Request for Postings closes on January 14, 2009.

Trade

The value of retail trade in the territory increased by 11.8% in 2007, to $500.3 million. Leading the way was the catch-all category "other trade groups", which increased by 14.4% to $174.1 million.

Automotive sales, including new vehicle as well as service station sales (which likely have increased, in part, due to higher fuel prices) demonstrated growth of 8.7% to $165.0 million. Food and beverage store sales increased by 9.5% to $144.2 million. Clothing and accessory store sales also showed 8.6% annual growth to $16.9 million.

Spending associated with the 2007 Canada Winter Games supported sales early in the year and increased disposable incomes from Yukon economic growth aided spending. Retail sales

figures are not adjusted for inflation, so total figures are also influenced by price increases as well as consumption growth. Retail sales, however, did grow at a significantly higher rate than general consumer inflation across all categories.

Wholesale trade, or business-to-business sales, showed continued growth in 2007, increasing by 18.3% to $140.1 million. Strong residential construction, as well as high mineral exploration and development expenditures, supported wholesale sales growth last year.

Retail trade sales figures in 2008 should remain strong with continued economic growth and general price inflation as higher energy prices trickle through to consumer goods prices. Wholesale trade should be similar in 2008 as influential factors seen in 2007 should carry through the coming year.

August Update: Retail trade in the territory has shown strong growth over the first five months of 2008, with total trade surpassing $200 million, which is 9.8% above the same period in 2007 (or 21.6% above the same period in 2006). Growth has been seen across all trade groups, but the catch-all "other trade groups" continues to lead the way with an 11.4% increase year-to-date. Automotive sales, with increased prices for fuel being somewhat offset by decreased prices for new vehicles, shows a similar 11.0% increase.

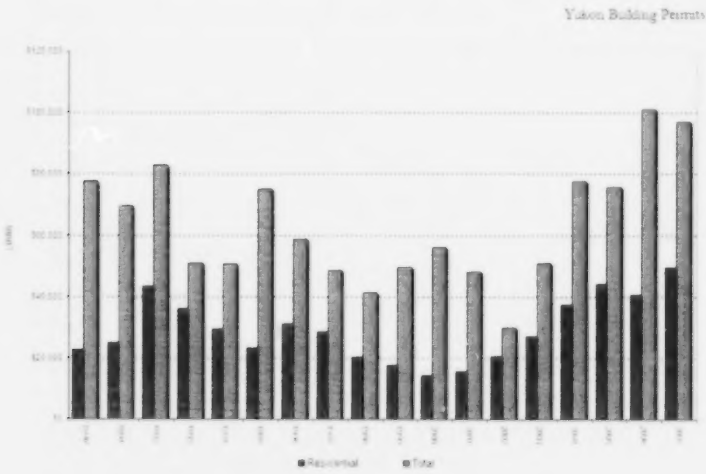
It appears that retail sales in 2008 will likely exceed initial forecasts. The effects of a decline in tourist traffic over the summer months will become more apparent once data is released later this fall.

Wholesale trade continues its growth trend, with January through May sales increasing by 23.3% over 2007.

Construction

The value of permitted building construction fell 4.0% in 2007, to $96.9 million. Overall, the value of permitted residential construction was up by 17.9%, while industrial construction was up by 84.0%, based largely on the construction permitting of the Minto Mine. Government and commercial permitting were both down sharply by 50.0% and 39.7% respectively from 2006.

Construction activity is affected by several economic factors. Interest rates have been relatively stable over the last two years and are forecast to decrease slightly in 2008. Yukon's growing population has required more housing while housing trends in Whitehorse, due to number of demographic and market factors, are keeping the demand for multi-residential (condominium) housing high. The vacancy rates for rental accommodation in Whitehorse and some communities have declined over the last few months. Some parts of Whitehorse, as well as Dawson City and Watson Lake, have minimal vacancy rates. The growing economy has resulted in a new mine being constructed for the first time in over a decade. Several other mining projects are nearing production decisions that could lead to further permitting within the next one to two years.



Given the high level of building activity over the last two years, the total value of permitted construction is expected to level off or decline slightly in 2008. Residential construction may be affected in the short term by slowing population growth rates and the lack of a major new residential development area coming on stream this year. As well, higher home operating costs due to heating fuel increases may impact the residential market to some degree. The development of new condominium units in Whitehorse will continue and there is a possibility of further retail or service development in the north end of downtown. The City of Whitehorse is planning to spend $8 million in 2008 on a new safety building project.

Spending plans on infrastructure development in 2008 include the Shakwak Highway project, totaling $27.5 million, and the first phase of the Carmacks to Stewart transmission line project, with spending estimated at $36.6 million. The first phase of the Robert

Campbell Highway reconstruction will also proceed in 2008 at a cost of $8.6 million. Other infrastructure projects planned for 2008 include improvements to the Whitehorse International Airport, the Lewes River Bridge and the Hamilton Boulevard extension.

August Update: The January to June 2008 value of Yukon building permits is substantially lower than during the same period in 2007, largely due to the fact that permitting at the Minto mine raised values in the first half of 2007.

As expected, residential construction has declined (by 2.6%) over the same period last year, but still surpasses $16 million, with 85 new dwelling units being permitted year-to-date. The City of Whitehorse is expecting to release the tender for the new $8 million safety building in August, with construction commencing this fall.

Overall, the forecast for the value of building permits may fall short of initial expectations.

Key Economic Indicators Summary Table – August 11, 2008

Indicator	*2006*	*2007*	*2008 (f)*
Population, Prices, Rates			
Population	31,803	32,276	33,300
Inflation Rate^	1.5%	2.5%	3%
Overnight Rate	4.01%	4.35%	3.21%
U.S./Canada Exchange Rate	$0.882	$0.935	$0.980
Employment[f]			
Labour Force	17,700	17,300	17,600
Employment	16,900	16,400	16,700
Unemployed	800	900	900
Unemployment Rate	4.5%	5.2%	5%
Economic Output			
Real Gross Domestic Product (millions of chained 2002 dollars)	$1,360 (r)	$1,412 (p)	$1,460
Real GDP Growth Rate	2.9%	3.8%	3-4%
Commodity Prices[f]			
Gold ($US/oz)	$604.13	$696.30	$910.20
Silver ($US/oz)	$11.58	$13.40	$17.23
Zinc ($US/lb)	$1.4855	$1.4752	$0.9281
Copper ($US/lb)	$3.0514	$3.2324	$3.6822
Uranium ($US/lb)	$47.77	$99.07	$70.04
Oil - WTI ($US/bbl)	$66.14	$72.27	$113.00
Natural Gas ($US/MMBTU)	$6.74	$6.97	$9.82
NYMEX			
Lumber ($US/mbf)	$327.02	$284.18	$264.08
West SPF 2x4			
Mining			
Value of Mineral Production	$40.6 million	$47.4 million#	--
Exploration Expenditures	$106.4 million	$132.8 million	$130 million
Development Expenditures	$50 million	$75 million	$90 million
Oil and Gas			
Natural Gas Prod'n Volume - m3	152,660,600	102,558,400	--
Government			
Gross GY Expenditures* - millions	$813.5	$907.8	$899.7
Construction			
Permitted Building Construction	$101.0 million	$96.9 million	$95 million
Trade			
Value of Retail Sales	$451.3 million	$500.3 million	$535 million
Tourism			
Non-resident Border Crossings+	315,504	329,302	325,000

^ - CPI increase for Whitehorse Only
f = forecast, e = estimate, p = preliminary, r = revised, -- = not available
f = annual averages – totals may not add due to rounding
* 2006 = 2006/2007 actual; 2007 = 2007/2008 forecast; 2008 = 2008/2009 estimate
+ as reported by the department of Tourism and Culture

- (p) - does not include copper or gold production from Minto mine.

Data Sources for Key Economic Indicators Summary Table

Indicator	*Source*
Population	2006 & 2007: Yukon Bureau of Statistics, Yukon Population Estimates
	2008: Yukon Economic Development forecast
Inflation (Consumer Price Index)	2006 & 2007: Statistics Canada, Consumer Price Index
	2008: Yukon Economic Development forecast
Overnight Rate	2006 & 2007: Bank of Canada (average daily rate)
	2008: Bank of Montreal Economics
Canada/U.S. Exchange Rate	2006 & 2007: Bank of Canada (average daily noon rate)
	2008: Bank of Montreal Economics
Labour Force Indicators	2006 & 2007: Statistics Canada, Yukon Labour Force Survey
	2008: Yukon Economic Development forecast
Economic Output (GDP)	2006 & 2007: Statistics Canada, Provincial Economic Accounts
	2008: Yukon Economic Development forecast
Commodity Prices	All Years: TD Canada Trust Economics
Value of Mineral Production	2006 & 2007 preliminary: Natural Resources Canada Minerals and Mining Statistics Division
Mineral Exploration & Mine Development	All years: Yukon Energy, Mines and Resources
Natural Gas Production Volume	All years: Yukon Energy, Mines and Resources, Oil and Gas Branch
Tourism Visitation	All Years: Yukon Department of Tourism and Culture
GY Expenditures	All years: Yukon Finance, *Financial Information 2008-09.*
Permitted Building Construction	2006 & 2007: Yukon Bureau of Statistics
	2008 Yukon Economic Development forecast
Retail Trade	2006 & 2007: Statistics Canada
	2008: Yukon Economic Development forecast

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